

EAST ZION SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF KANE COUNTY

FINANCIAL STATEMENTS

(UNAUDITED)

DECEMBER 31, 2006

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

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CPAS & ADVISORS

Independent Accountants' Report

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Executive Director and Members of the Board
East Zion Special Service District
Mt. Carmel, Utah 84755

We have reviewed the accompanying financial statements of the business activities of East Zion Special Service District, a component unit of Kane County as of and for the year ended December 31, 2006, which collectively comprise the District's financial statements as listed in the table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the East Zion Special Service District.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The Management's Discussion and Analysis on pages 2 through 4 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC

March 20, 2007

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006**

As management of the East Zion Special Service District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2006. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net assets) by \$175,717 at the close of the fiscal year.
- Total net assets increased by \$39,554.
- Total revenues from all sources were \$216,293.
- The total cost of all District programs was \$150,020.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the District as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. (3) Notes to the financial statements.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the District's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the District's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the District's property tax base or jurisdiction, the availability of capital projects, and condition of the District's assets to accurately assess the overall health of the District.

The Statement of Net Assets and the Statement of Activities, present information about the following:

- Government activities – The District currently does not maintain any governmental activities, all activities are accounted for as proprietary activities.
- Proprietary activities/Business type activities – All of the District's services are considered to be proprietary activities, including water, sewer, health and fire protection and recreation. Charges for services and miscellaneous grant and other revenues finance all of the cost of the services provided.

See accountants' report

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
December 31, 2006**

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. The District's major fund uses the accounting approaches as explained below.

- **Governmental funds** – The District currently does not maintain any governmental activities, all activities are accounted for as proprietary activities.
- **Proprietary funds** – When the District charges customers for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the District's financial position. The District's combined assets exceed liabilities by \$175,717 as of December 31, 2006 as shown in the Statement of Net Assets within the financial statements.

Business Type Activities

The cost of providing all proprietary (business type) activities this year was \$105,020. As shown in the statement of Changes in Net Assets, \$216,293 of this cost was paid for by those who directly benefited from the programs. Grant revenues and investment earnings totaled \$223.

The District's programs include: water, sewer and fire protection. The Net Assets increased by \$39,554.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the District are those assets that are used in performance of District functions including infrastructure assets. Capital Assets include equipment, buildings, land, and park facilities. At the end of fiscal year, net capital assets of the District's activities totaled \$723,395. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 3 to the financial statements.)

Debt

At year-end, the District had \$598,000 in long-term debt. During the current fiscal year, the District's total debt decreased by \$46,000. (See note 4 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the District Budget for fiscal year 2006, the District Board and management were cautious as to the growth of revenues and expenditures. Overall operating expenditures were budgeted so as to contain costs at the same level as fiscal year. There are no large capital projects anticipated for FY 2006.

See accountants' report

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
December 31, 2006**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lynette Spencer, Treasurer, P.O. Box 5547, Mt. Carmel, Utah 84755.

See accountants' report

EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
STATEMENT OF NET ASSETS
Proprietary Fund
December 31, 2006

	Year Ended December 31, 2006	(Memorandum Only) Year Ended December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 94,564	\$ 49,598
Well Repair Reserve	-	-
Accounts receivable, net of \$0 allowance	5,434	2,275
Total current assets	99,998	51,873
Noncurrent assets:		
Bond issue costs and other intangible assets	25,711	25,711
Less: accumulated amortization	(7,684)	(5,970)
Capital assets:		
Fire equipment	111,164	111,164
Equipment	81,408	81,408
Furniture and fixtures	12,890	12,890
Buildings	19,086	19,086
Water system	627,251	627,251
Less: accumulated depreciation	(128,403)	(93,835)
Total noncurrent assets	741,423	777,705
Total assets	\$ 841,421	\$ 829,578
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 19,704	\$ 390
Notes payable	-	1,025
Total current liabilities	19,704	1,415
Noncurrent liabilities:		
Due within one year	48,000	46,000
Due in more than one year	598,000	646,000
Total noncurrent liabilities	646,000	692,000
Total liabilities	665,704	693,415
NET ASSETS		
Invested in capital assets, net of related debt	95,423	85,705
Unrestricted net assets	80,294	50,458
Total net assets	\$ 175,717	\$ 136,163

See accompanying notes and accountants' report.

EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Proprietary Fund
For the Year Ended December 31, 2006

	Year Ended December 31, 2006	(Memorandum Only) Year Ended December 31, 2005
OPERATING REVENUES		
Charges for services	\$ 216,293	\$ 110,087
Total operating revenues	<u>216,293</u>	<u>110,087</u>
OPERATING EXPENSES		
Advertising	\$ 363	\$ -
Automobile Expense	-	20
Contract labor	2,794	160
Depreciation and amortization expense	36,282	37,538
Dues and Subscriptions	110	230
Insurance expense	364	363
Legal & professional fees	50,446	8,118
Licenses & fees	250	156
Miscellaneous expense	233	-
Office expense	-	238
Outside services	829	150
Professional Fees:Accounting	1,827	2,600
Repairs & maintenance	1,438	3,788
Supplies	17,068	-
Training	-	1,150
Travel & meals expense	-	100
Utilities	38,016	19,571
Total operating expenses	<u>150,020</u>	<u>74,182</u>
Operating income (loss)	<u>66,273</u>	<u>35,905</u>
NONOPERATING REVENUE (EXPENSES)		
Gain on sale of assets	-	4,266
Interest expense	(26,942)	(28,042)
Interest income	223	133
Total nonoperating revenue (expenses)	<u>(26,719)</u>	<u>(23,643)</u>
Change in net assets	39,554	12,262
Total net assets--beginning	136,163	123,901
Total net assets--ending	<u>\$ 175,717</u>	<u>\$ 136,163</u>

See accompanying notes and accountants' report.

EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
STATEMENT OF CASH FLOWS
Proprietary Fund
For the Year Ended December 31, 2006

	Year Ended December 31, 2006	(Memorandum Only) Year Ended December 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 213,134	\$ 117,637
Cash paid to suppliers	(95,449)	(36,525)
Net cash from operating activities	117,685	81,112
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	-	(858)
Sale of property and equipment	-	19,000
Payment on long-term debt	(46,000)	(45,000)
Interest expense	(26,942)	(28,042)
Net cash from capital and related financing activities	(72,942)	(54,900)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue	223	133
Net cash from investing activities	223	133
Net increase in cash and cash equivalents	44,966	26,345
Cash balance--beginning of the year	49,598	23,253
Cash balance--end of the year	\$ 94,564	\$ 49,598
Reconciliation of net operating income to net cash from operating activities:		
Operating income	\$ 66,273	\$ 35,905
Adjustments to reconcile net operating income to net cash used by operating activities:		
Depreciation/Amortization	36,282	37,538
(Increase) decrease in:		
Accounts receivable	(3,159)	7,550
Increase (decrease) in:		
Accounts payable	18,289	120
Net cash provided by operating activities	\$ 117,685	\$ 81,113

See accompanying notes and accountants' report.

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

NOTE 1. Summary of Significant Accounting Policies

NATURE OF ORGANIZATION

East Zion Special Service District, (the Service District) is a component unit of Kane County, Utah. The Service District was established by resolution of the Board of County Commissioners of Kane County on July 23, 2002, pursuant to the provisions of Chapter 23, of Title 11, Utah Code Annotated, 1953, to provide water, sewer and fire protection services to the territory which includes the unincorporated areas of Zion Ponderosa Resort and surrounding residences. One member of the Control Board of the Service District is appointed by the Kane County Commissioners, and the special service district community appoints an additional three members. There are no other agencies or component units that should be associated with these financial statements.

BASIS OF PRESENTATION-FUND ACCOUNTING

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The District's only fund is an enterprise fund.

BASIS OF ACCOUNTING

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. However, the only fund of the District is an enterprise fund. The accrual basis of accounting is generally followed as revenues are from services which are susceptible to accrual and expenditures are recorded when the liability is incurred. The District applies all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. The District also recognizes as operating revenue the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

NOTE 1. Summary of Significant Accounting Policies, Continued

BUDGET POLICY AND PROCESS

The annual budget was adopted by the District prior to fiscal year. The operating budget includes proposed expenses and the proposed source of revenue for such expenses. The budget was prepared using the accrual basis of accounting.

During the current fiscal year there were no amendments to the budget.

ENCUMBRANCES

Encumbrance accounting is not used.

CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

INVENTORIES

Inventories consisting of supplies for fire protection and materials used in the extension and repair of the districts water and sewer systems, are deemed immaterial and have been expensed as purchased.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NET ASSETS

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by other governments, creditors or grantors. All net assets are unrestricted.

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

Note 2. Cash Equivalents and Investments

Cash - At December 31, 2006, the carrying amount of the District's deposits was \$94,564 and the bank balance was \$114,488. Of the bank balance, \$14,488 was not covered by federal depository insurance. Deposits are not collateralized nor are they required to be by state statute. All cash at December 31, 2006 was deposited in bank checking and savings accounts.

Investments - The District follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of District funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also defines the types of securities allowed as appropriate temporary investments for the District and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

There were no investments held by the District during fiscal year 2006.

EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 3. Capital Assets and Depreciation

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method as follows:

	<u>Useful Life</u>
Fire equipment	5-10 years
Equipment	5 years
Office furniture & equipment	3-15 years
Buildings	7-20 Years
Water system	15-40 years

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Balance</u> <u>12/31/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2006</u>
Capital assets being depreciated:				
Fire equipment	\$ 111,164	\$ -	\$ -	\$ 111,164
Equipment	81,408	-	-	81,408
Furniture & fixtures	12,890	-	-	12,890
Buildings	19,086	-	-	19,086
Water system	627,251	-	-	627,251
A/D - Fire equipment	(26,154)	(14,221)	-	(40,375)
A/D - Equipment	(8,444)	(2,667)	-	(11,111)
A/D - Furniture & fixtures	(5,087)	(1,532)	-	(6,619)
A/D - Buildings	(1,478)	(467)	-	(1,945)
A/D - Water system	(52,673)	(15,681)	-	(68,354)
Total capital assets being depreciated, net	<u>\$ 757,963</u>	<u>\$ (34,568)</u>	<u>\$ -</u>	<u>\$ 723,395</u>

EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 4. Long-term debt

Following is a summary of long-term debt for the year ended December 31, 2006:

Special Assessment Bonds

General Obligation Special Assessment Bonds, series 2002, payable to Zion's Finance, bearing interest at the coupon rate, ranging from 2.23% to 4.39%. The principal and interest is approximately \$73,000 per year. The bond matures December 15, 2017. The principal balance December 31, 2006 is \$646,000.

A schedule of changes in long-term debt is as follows:

	Balance 12/31/2005	Additions	Retirements	Balance 12/31/2006
Special Assessment Bonds	\$ 692,000	\$ -	\$ 46,000	\$ 646,000

The annual debt service requirements to amortize debt outstanding at December 31, 2006 are as follows:

Year ended December 31,	G.O. Bond Principal	G.O. Bond Interest	Total
2007	48,000	25,051	73,051
2008	50,000	23,285	73,285
2009	52,000	21,355	73,355
2010	54,000	19,254	73,254
2011	56,000	17,008	73,008
2012-2017	386,000	51,674	437,674
Total	\$646,000	\$157,627	\$803,627